

# CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE IN THE ANNUAL REPORTS OF MALAYSIAN COMPANIES: A LONGITUDINAL STUDY

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## ABSTRACT

*Corporate social responsibility (CSR) has a long history in both practices and research in advanced countries, mostly in Europe and the United States. However, in Malaysia, very few empirical studies are available on CSR practices. This study investigates and examines the development of CSR practice in Malaysian companies. The trend of CSR disclosure in annual reports for a five-year period from 1995 to 1999 has been reviewed to find out whether there are any changes in themes, locations or form of disclosure throughout the interval.*

*The results show that the disclosure levels in Malaysia is considered low whereby less than 30 percent of companies studied made the CSR disclosure every year. The results also show that Malaysian companies prefer to disclose CSR in the Chairman's Statement, Financial Statement and Director's Report in the form of narrative information. Human resources, community involvement and environment were identified as the most popular themes. The findings reveal that the hotel, finance and construction sectors provide a higher percentage of CSR disclosure.*

**Key Words:** *Corporate Social Accounting; Corporate Social Responsibility  
Corporate Social Disclosure.*

## ABSTRAK

*Isu tanggungjawab sosial korporat telah lama diberi tumpuan oleh penyelidik di negara maju khususnya Amerika Syarikat dan Eropah. Namun begitu, di*

It is unfair to generalise the finding from studies done in developed countries to developing countries like Malaysia because of the different economic environment. Moreover, cultural and national differences will affect accounting practices in general and CSR practices in particular (Mathews, 1993; Perera and Mathews, 1990). Though there has been some improvement, there is still a dearth of longititude empirical study in Malaysia. In recent years, there have been numerous studies in Malaysia that reviewed CSR disclosure and other forms of reporting entities (for example, Teoh and Thong, 1984; Foo & Tan, 1988; Andrew *et al.*, 1989, Ho, 1990; Shireenjit and Zuaini, 1998; and Mohamed Zain, 1999), but they are all cross sectional in nature.

The need for companies to disclose CSR information has been a great concern in recent years. The reason for disclosing this information is the increasing need of stakeholders to use such information in making decisions. For instance, Nik Nazli (1999) found that the CSR information has the same impact on users in making decisions as financial information. Therefore, the content of annual reports must provide information to users relating to social factors like environment, human resources, energy and other social information. As Mathews (1997) suggested in his study, documenting and analysing what is disclosed in the areas of CSR should be one of the future directions for CSR. In addition this kind of study is valuable as a record of the current state of organizational disclosure and therefore, of the distance that remains to be travelled along the path to full accountability by economic actors.

Hence, this study tries to fill the gap and seeks to answer three main questions:

- What are the most popular themes or types of CSR and how is CSR disclosed in the annual reports of companies listed in the KLSE?
- Where is the location of presentation of CSR in the annual reports of Malaysian companies?
- What is the development of CSR practice through the trend of disclosure?

## LITERATURE REVIEW

### The Trend of CSR Disclosure

Different industries place different emphases on different types of information based on the nature of their business. This can be seen from trends of reporting by industries and also by countries. Surveys in a

The most recent study in Malaysia pertaining to CSR disclosure was done by Hanim and Mustaffa (2001) and Jing (2002). Hanim and Mustaffa reviewed the CSR practices by Malaysian companies in six sectors over a five year period from 1996 to 2000. Their finding revealed that there was an improved disclosure of CSR information among companies even during the economic downturn. While Jing studied 40 Malaysian companies, and found that 36 out of the 40 companies, that is 90%, had some CSR disclosure. Furthermore, he concluded that Malaysian companies, have improved their voluntary social and environmental disclosure since 1983.

The literature showed that most of the studies about CSR in Malaysia looked only at one year periods. Hence, this study will look into the development of CSR practice through the trend of disclosure from the years 1995 to 1999 to derive the arrive at the causational reasoning on the changes of CSR disclosure in annual reports.

### **The Nature of CSR Disclosure**

Many studies have been conducted, both in Malaysia and overseas, that attempt to determine the types of CSR disclosure that companies made. Disclosure of social responsibility has been steadily increasing over the last 25 years (see Mathews, 1997), particularly in annual reports, and the type of disclosure kept changing.

Ernst and Ernst (1978) also analysed the content of CSR disclosure in annual reports and showed that CSR information included environment, human resources, energy, community involvement, products and other social information. Pang (1982) showed that the frequency of disclosure and coverage on human resources information had an upward trend over the years, while two other areas frequently reported are community involvement and environmental impact. In the UK, Gray *et al.* (1995a) indicated in their study that employee-related disclosure was the most popular area as the average pages disclosed increased from 0.9 pages in 1979 to 3.3 pages in 1991.

In Dhaka, Imam (2000) conducted a study of the actual reporting practices of 40 listed companies on the Dhaka Stock Exchange and concluded that the companies being studied tend to disclose more information on human resources and relatively low-levels of disclosure on environmental impact and on products and services contribution.

In Malaysia, Ho (1990) found that a number of companies preferred disclosure on community involvement, human resources, product improvement, energy and environment. While Shireenjit and Zuaini

man's Statement of the annual reports. Their finding also revealed that the director's report was the more popular section for CSR.

Thus, this study investigates whether there are any changes in the location of presentation of CSR in the annual reports of Malaysian companies for the years 1995 to 1999.

## RESEARCH METHODOLOGY

A sample of 100 companies from each sector on the KLSE (first board) listed as on 31<sup>st</sup> December 1999 were randomly selected for this study. They were locally incorporated companies from nine (9) industries, namely: construction, consumer, finance, hotel, industrial product, mining, plantation, properties and trading/services (see Table 1). In order to increase reliability, and to control the year-to-year fluctuation in CSR disclosure, the data of CSR were recorded for five years from 1995 to 1999. Therefore a total of 500 annual reports were examined.

This study used the longitudinal approach to analyse the trend of CSR disclosure for the year revised. Longitudinal studies have been widely used in CSR research which focused on corporate reporting in just one country: over a period of 13 years in respect of large UK companies (Gray *et al.*, 1995a; Gray *et al.*, 1995b); four specific years from the period of 1980 to 1991 focusing on Australian companies (Deegan and Gordon, 1996) and just one or two years on Malaysian Companies (Shireenjit and Zuaini, 1998; Hanim and Mustafa, 2001).

On the other hand, content analysis was used to examine written material contained in the annual reports. This type of analysis was used due to the fact that this study only focuses on one document, that is the annual report. Unerman (1999) notes that content analysis was a common factor in most studies which focus on only one or two types of document, such as the annual report and account or the environmental report. Content analysis is defined as 'a research technique for the objective, systematic and quantitative description of the manifest content of communication' (Berelson, 1952, quoted in O' Dwyer, 1999). Krippendorff (1980) states that content analysis is a research technique for making replicable and valid inferences from data according to their context. Content analysis is clearly defined by Weber (1988) as a method of codifying the text or the content of a piece of writing into various groups or categories based on selected criteria.

By using content analysis, the researchers had codified the written material in the annual reports into six (6) broad categories; human

than 10 percent in 1999. However, the level of disclosure for this sector is considered the lowest compared to other sectors in which the level of disclosure throughout the years was more than 10 percent.

## Level of CSR Disclosure

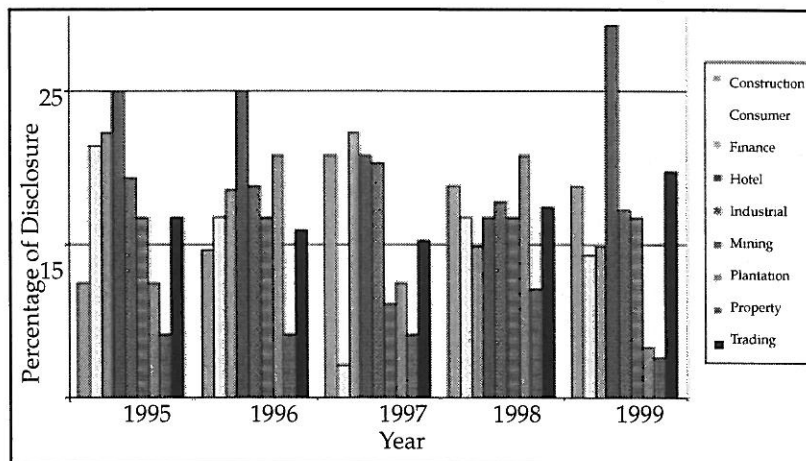
Table 1 summarises the frequencies and percentages of CSR practices in Malaysia from 1995 to 1999 and the distribution among different industrial groups.

**Table 1**  
Number of Companies Disclosing CSR - by Industry

Industry	Total number of companies	Number of companies with disclosure*	Percentage of disclosure
Construction	8	7	87.5
Consumer	7	6	85.7
Finance	9	7	77.7
Hotel	4	4	100.0
Industrial Product	32	27	84.4
Mining	3	3	100.0
Plantation	4	3	75.0
Property	11	9	81.8
Trading/Services	22	19	86.4
<b>Total</b>	<b>100</b>	<b>85</b>	<b>85.0</b>

\* At least one year out of five years reviewed

**Chart 1**  
The Trend of CSR Disclosure for a Five Year Period – by Industries



## Form of CSR Disclosure

The form of CSR disclosure which appeared in the annual reports of Malaysian companies were analysed and reported in Table 2.

**Table 2**  
Format of Disclosure

Year	Frequency of CSR Disclosure Using Narrative/Picture	Frequency of CSR Disclosure Using both Narrative and Monetary Format
1995	87	43
1996	75	47
1997	84	41
1998	77	46
1999	76	46

However, there were also companies that used both the narrative and monetary formats of disclosure. Many companies were also found to have used the monetary format to disclose human resource information primarily related to retirement benefits and training of employees.

## Location of CSR

In line with previous studies, such as studies done by Teoh and Thong (1984), Guthrie *et al.* (1987), Andrew *et al.* (1989), Ho (1990), Shireenjit and Zuaini (1998) and Hanim and Mustafa (2001), different locations in the annual report such as the Chairman's Statement, Operation Review, Financial Statement and Corporate Diary were investigated as potential places where companies were expected to disclose CSR information. The locations of CSR disclosure in the annual reports are reported in Table 3.

The study found that the majority of companies chose the Chairman's Statement as the most popular section for CSR disclosure, followed by Notes to Accounts in the Financial Statement, Director's Report, Operation Review, Corporate Diary or the last section under the sub-heading 'Others'. This finding is consistent with the results of the Harte and Owen (1992) study which found that 10 out of 30 companies reported CSR in a separate section but on different themes, that is the

- (i) Human resource.
- (ii) Fair business practice.
- (iii) Environment.
- (iv) Energy.
- (v) Community environment.
- (vi) Product.

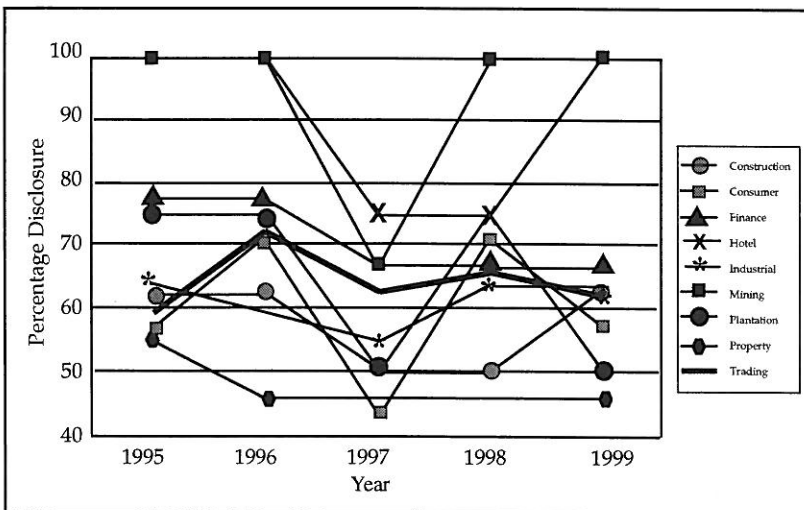
### *Human Resource*

This theme includes social information directed towards the well being of employees. For example, improvement of employment practices, training programmes, working conditions, promotion policies and provision for job enrichment schemes and employee benefits.

In general, the majority of disclosure came under this theme. Chart 3 shows that the amount of disclosure remained stable since 1995. It had just slightly fluctuated throughout the years. One of the reasons may be due to the voluntary nature of CSR. Once the companies attained a certain level of disclosure, they were not motivated to go further.

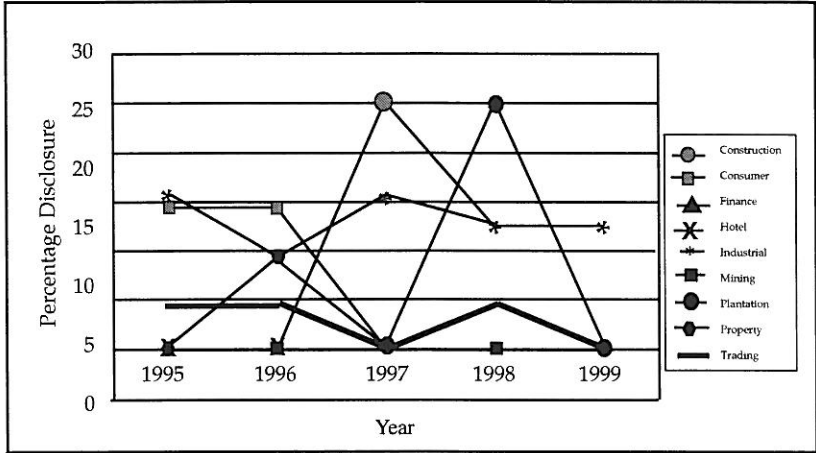
The analysis for company groupings showed that hotel and mining industries tend to disclose more human resources information than the other industries. However, in 1997, both industries (i.e., hotel and mining industries) showed a lower percentage of disclosure compared to other years.

**Chart 3**  
Human Resources Disclosure



had a higher percentage of disclosure compared to the other industries is because the nature of their operation is related closely to the environment.

**Chart 4**  
Environmental Disclosure



However, the results for the mining and the plantation companies were quite surprising, because all companies in this sector did not have any disclosure on the environment even though their activities were closely related to the environment.

### *Energy*

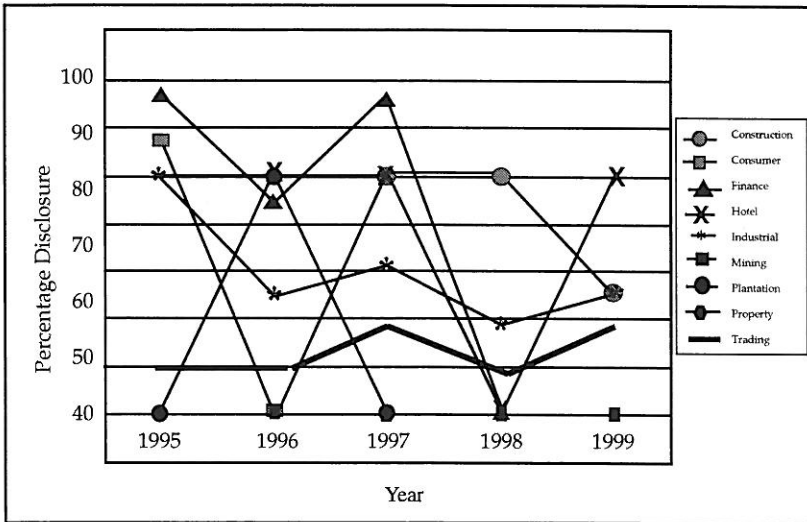
The level of disclosure for energy among the sample of companies studied was very low. Almost all companies surveyed disclosed no information on this theme except for the industrial product companies that made a few disclosures for two years out of the five years reviewed.

### *Community Involvement*

Chart 5 represents the result for community involvement disclosure. This theme covers information like education, sponsoring sports, cultural activities, helping the poor, health and safety, and also charity. This theme was a popular disclosure among the companies. This might be because the companies wanted to show to the users of the annual reports that they were accountable to the public. Consequently, this will attract the users or the public to be investors of the company.



**Chart 6**  
**Product Disclosure**



## CONCLUDING REMARKS

This study examined and traced the development of corporate social responsibility practice through trends of disclosure for a five-year period from 1995 to 1999. The theme or type of corporate social responsibility, form and location were identified in the annual reports of 100 Malaysian companies. This covers almost all sectors listed in the Kuala Lumpur Stock Exchange. This study found that the level of disclosure for 100 companies in all sectors was still low; less than 30% of them disclosed the CSR every year. The results of the longitudinal study of corporate social responsibility in Singapore (Tsang, 1998) were about the same as in this study, where the level of corporate social disclosure was still considered as low. Tsang believed that the corporate social disclosure is still low in developing countries because it is still in an infant stage of development. In addition, social disclosure not being mandatory in the corporate annual report is also another reason for the low level of corporate disclosure in Malaysia.

Although it was not mandatory, quite an extensive number of Malaysian companies do disclose some form of social responsibility. Overall disclosures are in the form of narrative information. The most favoured places of disclosure are in the Chairman's Statement, the Fi-

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